



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT REVIEW REPORT OF WESTERN PIEDMONT COMMUNITY COLLEGE

MORGANTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT REVIEW REPORT OF

WESTERN PIEDMONT COMMUNITY COLLEGE

MORGANTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

H. MARTIN LANCASTER, PRESIDENT

BOARD OF TRUSTEES

CHARLES T. HENSON, CHAIRMAN

JULEIGH SITTON, VICE CHAIRMAN

**ROBERT L. CALDWELL
DAVID L. CAMPBELL
ROBERT P. CARR
ELSIE H. CHILDRES
NETTIE M. MCINTOSH**

**CLAUDE S. SITTON
CHARLES E. TAYLOR
LINDA S. WALL
FRED J. WHALEN
DR. JAMES D. WILSON**

ADMINISTRATIVE OFFICERS

DR. JIM A. RICHARDSON, PRESIDENT

C. MALONE MCNEELY, VICE PRESIDENT FOR ADMINISTRATIVE SERVICES



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

REVIEWER'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, Western Piedmont Community College

This report presents the results of our financial statement review of Western Piedmont Community College, a component unit of the State of North Carolina, for the year ended June 30, 2003. Our review was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to review procedures as we considered necessary. In addition, we performed review procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Western Piedmont Community College. The review procedures were conducted in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants.

The purpose of this report is to present the results of our review of the accompanying financial statements that relate solely to Western Piedmont Community College. Our reporting objectives and review results are:

- 1. Objective** - To disclose any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Results - We are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Accountant's Review Report on the financial statements.

REVIEWER'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants that came to our attention during our review of the financial statements.

Results - Our review disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

North Carolina General Statutes require the State Auditor to make reports available to the public. Copies of review reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT ACCOUNTANT’S REVIEW REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Exhibits	
A Statement of Net Assets	14
B Statement of Revenues, Expenses, and Changes in Net Assets	15
C Statement of Cash Flows	16
Notes to the Financial Statements	19
SUPPLEMENTARY INFORMATION	
Schedule	
1 Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures.....	34
DISTRIBUTION OF REVIEW REPORT	35



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Trustees
Western Piedmont Community College
Morganton, North Carolina

We have reviewed the accompanying Statement of Net Assets of Western Piedmont Community College, a component unit of the State of North Carolina, as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows for the year then ended, in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the College's management.

A review consists principally of inquiries of College personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A), as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

Our review was conducted for the purpose of expressing limited assurance that there are no material modifications that should be made to the basic financial statements in order for them to be in conformity with generally accepted accounting principles. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

A handwritten signature in black ink that reads "Ralph Campbell, Jr.".

Ralph Campbell, Jr.
State Auditor

March 5, 2004

[This Page Left Blank Intentionally]

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Western Piedmont Community College annual financial report presents our discussion and analysis of the financial performance of the Community College during the fiscal year ended June 30, 2003. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and notes. Management will present a comparative analysis in this year's report. The financial statements, notes, and this discussion are the responsibility of management.

Using the Annual Report

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. These financial statements focus on the financial condition of the Community College, the results of operations, and cash flows of the College as a whole.

One of the most important questions asked is whether the Community College as a whole is better or worse off because of the year's activities. The key to understanding this question is the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These statements present financial information in a form similar to that used by corporations. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Net Assets includes all assets and liabilities. The College's net assets (the difference between assets and liabilities) are one indicator of the College's financial health. Over time, increases or decreases in net assets are one indicator of the improvement or erosion of the College's financial health when considered with nonfinancial facts such as enrollment levels and the condition of the facilities.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. The financial reporting model classifies State appropriations and gifts as nonoperating revenues. The College's dependency on State aid and gifts results in an operating deficit. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Another important factor to consider when evaluating financial viability is the College's ability to meet financial obligations as they mature. The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Comparative Statement of Assets

For the Year Ended June 30, 2003

	<u>FY 2002-03</u>	<u>FY 2001-02</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
Cash and Cash Equivalents	\$ 1,329,529.86	\$ 1,198,443.17	\$ 131,086.69	10.94 %
Receivables, Net	516,816.35	460,026.24	56,790.11	12.34 %
Inventories	272,311.47	250,189.56	22,121.91	8.84 %
Notes Receivable, Net	<u>2,475.00</u>	<u>3,082.00</u>	<u>(607.00)</u>	(19.70)%
Total Current Assets	<u>2,121,132.68</u>	<u>1,911,740.97</u>	<u>209,391.71</u>	10.95 %
Cash and Cash Equivalents	91,788.90	77,810.67	13,978.23	17.96 %
Receivables	96,961.06	161,954.57	(64,993.51)	(40.13)%
Other Long-Term Investments	883,324.93	937,523.38	(54,198.45)	(5.78)%
Capital Assets, Net	<u>9,523,402.29</u>	<u>9,937,682.02</u>	<u>(414,279.73)</u>	(4.17)%
Total Noncurrent Assets	<u>10,595,477.18</u>	<u>11,114,970.64</u>	<u>(519,493.46)</u>	(4.67)%
Total Assets	<u>\$ 12,716,609.86</u>	<u>\$ 13,026,711.61</u>	<u>\$ (310,101.75)</u>	(2.38)%

Assets

Current Assets

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in the College's bank accounts and within the State Treasurer's Short-Term Investment Pool (STIF). The total amount of cash and cash equivalents reported as current assets on the College's financial statements were \$1,329,529.86 as of June 30, 2003. This is an increase of \$131,086.69 or 10.94% from the previous year.

Accounts Receivable

Accounts receivable relate to several transactions including county appropriations, accrued interest, student tuition and fee billings, auxiliary enterprise sales such as food service and bookstore, and rental of facilities. In addition, receivables arise from grant awards and financial aid revenues. The receivables are shown net of allowance for doubtful accounts. The College receivables totaled \$516,816.35 as of June 30, 2003, which reflects a 12.34% increase from last year. The increase is attributed to student tuition and fees billings and rental of facilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Inventories

The College maintains inventories of resale merchandise as well as items for internal consumption. Books, student supplies, and institutional memorabilia make up the majority of the resale inventory. Inventories maintained for internal departmental use include postage, fuel, and office supplies, which makes up the balance of the recorded inventory. The inventories totaled \$272,311.47 as of June 30, 2003. The inventory balance increased by \$22,121.91 compared to last year.

Notes Receivable

The College provides short-term loans to students based on need. The North Carolina Community College System provides the revenue for the loans. Students are required to repay the loans within a 60-day period and are required to sign a promissory note. The notes receivable are shown net of allowance for doubtful accounts as a balance of \$2,475.00 at June 30, 2003. The notes receivable balance decreased during the year by 19.70%, which is attributed to an increase in the allowance for doubtful accounts.

Noncurrent Assets

Cash and Cash Equivalents

Cash and cash equivalents are those funds that are held in the bank accounts and in the State Treasurer's Short-Term Investment Pool (STIF). The cash and cash equivalents that are considered noncurrent are cash in endowment funds, unexpended plant funds, those funds held for student organizations, and agency scholarships. The amount of cash and cash equivalents considered noncurrent as of June 30, 2003 totaled \$91,788.90, which is an increase of \$13,978.23 or 17.96%. This result can be attributed to an increase in funds held for student organizations and agency scholarships.

Restricted Due from Primary Government

This is a receivable due from the North Carolina Community College System for construction projects particularly related to the 2000 Bond Money. The balance of the receivable at June 30, 2003 totaled \$96,961.06. The receivable decreased compared to last year by \$64,993.51 or 40.13%. This decrease is a result of approved projects being closer to completion with regards to the 2000 Bond Money.

Other Investments

Other long-term investments include marketable securities held and managed by investment managers. These investments are recorded at fair market value. The fair market value as of June 30, 2003 was \$883,324.93. Due to the College using funds from the account, the balance decreased by \$54,198.45 or 5.78% compared to last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Assets, Net

Capital assets, net, consist of land, infrastructure, buildings, equipment, and historical library holdings at June 30, 2003. The amount reported is net of accumulated depreciation. Capital assets, net, totaled \$9,523,402.29 as of June 30, 2003. This represents a 4.17% decrease from last year. The decrease is the result of accumulated depreciation and deletions to capital assets being greater than additions during the year.

Comparative Statement of Liabilities

June 30, 2003

	<u>FY 2002-03</u>	<u>FY 2001-02</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
Current Liabilities	\$ 343,339.24	\$ 298,533.09	\$ 44,806.15	15.01%
Noncurrent Liabilities	<u>432,720.44</u>	<u>365,220.97</u>	<u>67,499.47</u>	18.48%
Total Liabilities	<u>\$ 776,059.68</u>	<u>\$ 663,754.06</u>	<u>\$ 112,305.62</u>	16.92%

Liabilities

Current Liabilities

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represent amounts due at June 30 for goods and services received before the end of the fiscal year. The accounts payable and accrued liabilities totaled \$192,615.96 as of June 30, 2003. This is a decrease from the previous year of \$62,740.27.

Due to Primary Government

Due to primary government consists of accounts payable due to the North Carolina Information Technology Services for telephone service and Department of Corrections Prison Enterprises for road signs provided at June 30, 2003. The liability totaled \$8,477.50. The liability to the State increased \$3,157.37.

Deferred Revenue

Deferred revenue represents revenue that was received by the College during the fiscal year, but the College did not earn by the end of the June 30, 2003 fiscal year. The deferred revenue totaled \$133,315.87 as of June 30, 2003. Deferred revenue increased by \$112,411.87 or 84.32% compared to last year. The deferred revenue is the result of tuition and fees that were collected for the summer semester prior to June 30, but were not completely earned until the 2003-04 fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Long-Term Liabilities – Current Portion

Long-term liabilities – current portion represents the portion of accrued compensated balances that would be payable by the end of the June 30, 2003 fiscal year. The amount of the current portion of compensated absences at June 30, 2003 was \$8,929.91. In comparison, the liability totaled \$16,952.73 last year. Considering that vacation is accrued on the LIFO valuation, the result of this decrease shows that employees used more of their vacation than they earned this past year.

Noncurrent Liabilities

Funds Held for Others

Funds held for others represent assets belonging to an individual or organization for which the College acts as custodian. Examples include various student clubs and organizations and agency scholarships. The total amount held for others at June 30, 2002 was \$18,471.67. In comparison, the amount held at June 30, 2003 totaled \$26,413.88, for an increase of \$7,942.21.

Long-Term Liabilities

This liability consists of accrued compensated absences that represent the amount payable to employees for earned but unpaid absences, such as vacation. The total amount of the noncurrent portion of accrued compensated absences was \$346,749.30 as of June 30, 2002. The balance as of June 30, 2003 was \$406,306.56. The liability increased by a total of \$59,557.26. The increase would be a result of less vacation time being used with regards to time older than one year. The increase would also be reflected due to an increase in salary for employees.

Comparative Statement of Net Assets

June 30, 2003

	<u>FY 2002-03</u>	<u>FY 2001-02</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
Invested in Capital Assets	\$ 9,523,402.29	\$ 9,937,682.02	\$ (414,279.73)	(4.17)%
Restricted Net Assets	1,193,403.79	1,248,916.87	(55,513.08)	(4.44)%
Unrestricted Net Assets	<u>1,223,744.10</u>	<u>1,176,358.66</u>	<u>47,385.44</u>	4.03 %
Total Net Assets	<u>\$ 11,940,550.18</u>	<u>\$ 12,362,957.55</u>	<u>\$ (422,407.37)</u>	(3.42)%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Comparative Statement of Revenues, Expenses, and Changes in Net Assets For the Year Ended June 30, 2003

	FY 2002-03	FY 2001-02	Increase/ (Decrease)	% Increase/ (Decrease)
Operating Revenues:				
Student Tuition and Fees	\$ 1,683,877.41	\$ 1,481,173.53	\$ 202,703.88	13.69 %
Federal Grants and Contracts	3,286,510.29	2,504,392.12	782,118.17	31.23 %
State and Local Grants and Contracts	6,828.00	5,204.00	1,624.00	31.21 %
Nongovernmental Grants and Contracts		7,400.00	(7,400.00)	(100.00)%
Sales and Services, Net	1,044,334.65	899,118.82	145,215.83	16.15 %
Other Operating Revenues	6,845.30	2,964.13	3,881.17	130.94 %
Total Operating Revenues	6,028,395.65	4,900,252.60	1,128,143.05	23.02 %
Operating Expenses:				
Personal Services	11,089,179.34	10,480,957.90	608,221.44	5.80 %
Supplies and Materials	2,789,087.91	1,922,525.97	866,561.94	45.07 %
Services	1,129,023.38	1,103,019.27	26,004.11	2.36 %
Scholarships and Fellowships	2,741,134.03	1,909,992.92	831,141.11	43.52 %
Utilities	320,997.53	338,875.49	(17,877.96)	(5.28)%
Depreciation	491,266.48	456,242.22	35,024.26	7.68 %
Total Operating Expenses	18,560,688.67	16,211,613.77	2,349,074.90	14.49 %
Operating Loss	(12,532,293.02)	(11,311,361.17)	(1,220,931.85)	10.79 %
Nonoperating Revenues:				
State Aid	8,590,814.26	8,537,730.75	53,083.51	0.62 %
County Appropriations	1,384,160.04	1,396,500.00	(12,339.96)	(0.88)%
Noncapital Grants	761,062.27	421,224.79	339,837.48	94.92 %
Noncapital Gifts	80,607.89	51,071.55	29,536.34	57.83 %
Investment Income, Net	71,479.44	(270,534.99)	342,014.43	(126.42)%
Other Nonoperating Expenses	(1,844.04)	(14,473.96)	12,629.92	(87.26)%
Net Nonoperating Revenues	10,886,279.86	10,121,518.14	764,761.72	7.56 %
Loss Before Other Revenues	(1,646,013.16)	(1,189,843.03)	(456,170.13)	38.34 %
State Capital Aid	796,410.66	850,958.63	(54,547.97)	(6.41)%
Capital Grants	427,195.13	39,320.72	387,874.41	986.43 %
Total Other Revenues	1,223,605.79	890,279.35	333,326.44	37.44 %
Total Decrease in Net Assets	(422,407.37)	(299,563.68)	(122,843.69)	41.01 %
Net Assets:				
Net Assets at Beginning of Year, as Restated	12,362,957.55	12,662,521.23	(299,563.68)	(2.37)%
Net Assets at End of Year	\$ 11,940,550.18	\$ 12,362,957.55	\$ (422,407.37)	(3.42)%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total operating loss for the fiscal year 2003 was \$12,532,293.02. Since the State of North Carolina appropriation is not included within operating revenue per GASB Statement No. 35, the College will show a significant operating loss.

The sources of operating revenue for the College are tuition and fees, grants and contracts, auxiliary services, and other operating revenues.

The College strives to provide students with the opportunity to obtain a quality education. Future enrollments at the College may be affected by a number of factors including any material increases in tuition and other mandatory charges stemming from any material decrease in appropriation funding from the State of North Carolina.

Total operating revenues for fiscal year 2003 were \$6,028,395.65. Tuition and fees were \$1,683,877.41. The tuition discount was \$442,155.29. The tuition and fees income increased because of a rate increase along with enrollment growth for the College. Operating Expenses including depreciation of \$491,266.48 totaled \$18,560,688.67. Of this total \$8,108,338.11 or 43.7% was for instruction.

Revenues

Operating Revenues

Tuition and Fees

This category includes all tuition and fees assessed for educational purposes totaling \$1,683,877.41. The tuition discount for the 2003 fiscal year was \$442,155.29. The College experienced an increase in tuition and fees revenue because of a rate increase along with enrollment growth for the College.

Grants and Contracts

This includes all restricted revenues made available by government agencies as well as private agencies. Grant revenues are recorded only to the extent that the funds have been expended for exchange transactions. Nonexchange revenues are recorded when received or when eligibility criteria have been met. The College received \$3,286,510.29 in federal grant funding for the 2002-03 fiscal year. This is an increase of \$782,118.17 or 31.23% from last year's total. The increase is due to the College receiving more federal funding for its programs, but also as a result of the increase in enrollment that received some form of financial assistance to further their education.

Sales and Services from Other Sources

Other operating revenues consist of income from other sources that totaled \$6,845.30 for the 2002-03 fiscal year. The College received an increase of \$3,881.17 other income over last year's total.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Sales and Services, Net

Sales and services, net, consist of various enterprise entities that exist predominantly to furnish goods and services to students, faculty, staff or the general public and charge a fee directly related to the cost of those goods or services. They are intended to be self-supporting.

Auxiliary enterprises primarily include the College bookstore. Certain revenues totaling \$17,665.60 have been eliminated from the auxiliary enterprise income and expense due to the use of services by campus departments. The College bookstore also had tuition discounting of \$238,083.62 for the current fiscal year compared to \$165,980.96 during the 2001-02 fiscal year.

The sales and services, net for the 2002-03 fiscal year increased by 16.15%. This increase is due to an increase in enrollment at the College and prices of goods purchased in the bookstore.

Operating Expenses

Operating expenses totaling \$18,560,688.67 include salaries and benefits, scholarships and fellowships, utilities, supplies, services, and depreciation. The College reported \$16,211,613.77 for last year. The 2002-03 fiscal year shows a \$2,349,074.90 or 14.49% increase in expenses over last year. This difference is related to an increase in salaries and benefits for employees, scholarships and fellowships related to students, and an increase in supplies and materials purchased during the year.

Nonoperating Revenues (Expenses)

State Aid

The College's largest source of nonoperating revenue is the State of North Carolina appropriation. The College received \$9,387,224.92 for the 2002-2003 fiscal year of which \$8,590,814.26 was for operations. State capital aid in the amount of \$796,410.66 was received for the purchase, construction, renovation, and repair of fixed assets. In total, the College received a decrease in funding from the State of \$1,464.46.

County Appropriations

The College also receives revenue from the county in which the school resides. The College uses the funding for salaries and benefits and for operational purposes. The College receives the appropriation in monthly payments, beginning in July of each year, since the fiscal year begins July 1st. The College received \$1,384,160.04 for the 2003 fiscal year from the county. This appropriation was fully recorded by the College during the fiscal year. Unlike the State appropriation, the county appropriation was reduced by \$12,339.96 compared to last year. The tough economic hardships in the county have forced the College to make prudent decisions with regard to the use of the appropriations.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Noncapital Grants

The College also received grants from the State that are considered nonoperating due to the fact that they do not meet the classification of an exchange transaction. Therefore, the College reports this revenue from the State as noncapital grant revenue rather than as State contracts and grants. The amount received for the fiscal year totaled \$761,062.27, for an increase of \$339,837.48 or 94.92% compared to 2001-02 fiscal year.

Noncapital Gifts

This consists of gifts made to the College from a nongovernmental organization and/or individuals. The cash gifts totaled \$80,607.89 as of June 30, 2003. The College received an increase of noncapital gifts during the year totaling \$29,536.34.

Investment Income, Net

This includes the interest income from the cash in the bank accounts, the State Treasurer's Short-Term Investment Pool (STIF), and the unrealized gains and losses on the investments held with an outside agency. The investment income at June 30, 2002 shows a deficit of \$270,534.99 in investment income due to the amount of losses incurred on the investments with the outside agency. The investment income for the 2003 fiscal year showed an increase of \$342,014.43 compared to last year. The investment income for the fiscal year was \$71,479.44.

Other Nonoperating Expenses

This consists of the losses on the sale of fixed assets that the College incurred during the 2003 fiscal year. The total of the losses amounted to \$1,844.04.

Other Revenues

State Capital Aid

The State Capital Aid amount consists of revenue received from the North Carolina Community College System Office to purchase, construct, renovate, or repair capital assets. The amount recorded as of June 30, 2003 was \$796,410.66. The College had a decrease of State capital aid totaling \$54,547.97 compared to last fiscal year.

Capital Grants

This includes revenue received from the North Carolina Community College System as a pass-through from federal agencies for capital projects during the fiscal year. The amount of this grant totaled \$24,154.75 for the 2003 fiscal year. In addition, the College received \$403,040.38 in general obligation bonds of the State for capital improvements. The College received an increase of capital grant funds totaling \$387,874.41 compared to last fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Cash Flows

Another way to assess the financial health of the College is to look at the Statement of Cash Flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of the College during a period. The Statement of Cash Flows also helps users assess:

- The ability to generate future net cash flows
- The ability to meet obligations as they come due
- A need for external financing

Condensed Statement of Cash Flows (Direct Method)

For the Fiscal Year Ended June 30, 2003

	<u>FY 2002-03</u>	<u>FY 2001-02</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
Cash and Cash Equivalents Provided (Used) by:				
Operating Activities	\$ (12,162,115.67)	\$ (10,856,329.50)	\$ (1,305,786.17)	12.03%
Noncapital Financing Activities	11,024,280.18	10,215,958.47	808,321.71	7.91%
Capital and Related Financing Activities	1,157,215.57	638,457.15	518,758.42	81.25%
Investing Activities	<u>125,684.84</u>	<u>104,832.81</u>	<u>20,852.03</u>	19.89%
Net Increase in Cash and Cash Equivalents	145,064.92	102,918.93	42,145.99	40.95%
Cash and Cash Equivalents - Beginning of Year	<u>1,276,253.84</u>	<u>1,173,334.91</u>	<u>102,918.93</u>	8.77%
Cash and Cash Equivalents - End of Year	<u>\$ 1,421,318.76</u>	<u>\$ 1,276,253.84</u>	<u>\$ 145,064.92</u>	11.37%

The major sources of funds included in operating activities include student tuition and fees, \$1,683,877.41, auxiliary enterprises, \$1,044,334.65, and federal grants and contracts, \$3,286,510.29. The major uses of funds were payments made to employees, \$11,089,179.34, suppliers, \$2,789,087.91, and students through scholarships and fellowships totaling \$2,741,134.03. In comparison to last year, the College's operating activities deficit increased due to a couple of factors. The factors involved an increase in salaries and benefits given to faculty and staff and an increase in the College's enrollment with regard to students receiving some form of financial aid.

The largest inflow of cash in the noncapital financing activities group is the State appropriation of \$8,590,814.26. The State appropriation makes up 77.93% of the total noncapital financing activities reported on the 2003 Statement of Cash Flows. The State appropriation was the largest inflow last year as well.

The largest inflow of cash in the capital and related financing activities group is the State appropriation as well. These funds are related to the College purchasing, constructing, renovating, or repairing capital assets during the year. The College received an increase in

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

capital and related financing inflows of \$518,758.42 or 81.25% this fiscal year compared to the 2002 fiscal year.

In further examination of the Statement of Cash Flows, the College had a net increase of cash and cash equivalents for the 2003 fiscal year totaling \$145,064.92. This is a great indicator that the College has been able to generate additional cash flows compared to last year's increase of \$102,918.93. The College has also been able to meet obligations as they come due despite an uncertain economy and funding challenges.

Significant Capital Asset Transactions

The College engaged in transactions regarding capital assets during the 2003 fiscal year. The College added an additional parking lot on campus totaling \$10,799.50. This amount was recorded as infrastructure at June 30, 2003.

Factors Impacting Future Periods

There are a number of issues of Community College-wide importance that directly impacted the fiscal year 2003 financial situation. The level of State support, compensation increases, student tuition and fee increases, and supplies and materials cost increases impact the College's ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs.

State appropriations contribute approximately seventy-five percent of general operations revenue not including grant, contracts, and auxiliary revenue. The level of State support is therefore one of the key factors influencing the College's financial condition. Another factor influencing the College's decision-making process is the uncertainty of the economic future regarding the County and their appropriations. The County appropriations are used for the funding of salaries and benefits and for the general operation of the College. The reduction in appropriations impacts the ability of the College to effectively perform its basic requirements for operations. The College has experienced tremendous growth over the last three years primarily due to the economic downturn the State and county has experienced, but has not received the necessary funding to accommodate the increases. The College will need to expand its efforts in achieving external financing by other means rather than the traditional methods used in the past if this trend continues.

The need to continue to address priority needs and requirements for deferred maintenance, new technology, repairs, and new construction projects is a large challenge facing the College in the years to come. It will be management's responsibility to make the key decisions in how best to utilize the resources that have been made available to the College.

Various committees and individuals are assessing the College's performance toward identified goals and ways to achieve greater efficiencies and reduce expenditures in an effort to assist in meeting the future challenges. The College and its leadership are committed to providing the best educational opportunities through instruction and job training to its students. In doing so, the State and county will gain the benefit of having a well-prepared work force for the twenty-first century.

Western Piedmont Community College		
Statement of Net Assets		
June 30, 2003		Exhibit A
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	1,166,319.18
Restricted Cash and Cash Equivalents		163,210.68
Receivables, Net (Note 3)		516,816.35
Inventories		272,311.47
Notes Receivable, Net (Note 3)		2,475.00
Total Current Assets		2,121,132.68
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		91,788.90
Restricted Due from Primary Government		96,961.06
Other Long-Term Investments		883,324.93
Capital Assets - Nondepreciable, Net (Note 4)		762,345.50
Capital Assets - Depreciable, Net (Note 4)		8,761,056.79
Total Noncurrent Assets		10,595,477.18
Total Assets		12,716,609.86
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		192,615.96
Due to Primary Government		8,477.50
Deferred Revenue		133,315.87
Long-Term Liabilities - Current Portion (Note 6)		8,929.91
Total Current Liabilities		343,339.24
Noncurrent Liabilities:		
Funds Held for Others		26,413.88
Long-Term Liabilities (Note 6)		406,306.56
Total Noncurrent Liabilities		432,720.44
Total Liabilities		776,059.68
NET ASSETS		
Invested in Capital Assets		9,523,402.29
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		59,339.00
Expendable:		
Scholarships and Fellowships		1,037,678.02
Loans		8,773.00
Capital Projects		95,074.45
Other		(7,460.68)
Unrestricted		1,223,744.10
Total Net Assets	\$	11,940,550.18
The accompanying notes to the financial statements are an integral part of this statement.		

Western Piedmont Community College		
Statement of Revenues, Expenses, and		
Changes in Net Assets		
For the Fiscal Year Ended June 30, 2003		Exhibit B
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	\$	1,683,877.41
Federal Grants and Contracts		3,286,510.29
State and Local Grants and Contracts		6,828.00
Sales and Services, Net (Note 8)		1,044,334.65
Other Operating Revenues		6,845.30
Total Operating Revenues		6,028,395.65
EXPENSES		
Operating Expenses:		
Personal Services		11,089,179.34
Supplies and Materials		2,789,087.91
Services		1,129,023.38
Scholarships and Fellowships		2,741,134.03
Utilities		320,997.53
Depreciation		491,266.48
Total Operating Expenses		18,560,688.67
Operating Loss		(12,532,293.02)
NONOPERATING REVENUES (EXPENSES)		
State Aid		8,590,814.26
County Appropriations		1,384,160.04
Noncapital Grants		761,062.27
Noncapital Gifts (Note 8)		80,607.89
Investment Income, Net		71,479.44
Other Nonoperating Expenses		(1,844.04)
Net Nonoperating Revenues		10,886,279.86
Loss Before Other Revenues, Expenses, Gains, and Losses		(1,646,013.16)
State Capital Aid		796,410.66
Capital Grants		427,195.13
Decrease in Net Assets		(422,407.37)
NET ASSETS		
Net Assets, July 1, 2002		12,362,957.55
Net Assets, June 30, 2003	\$	11,940,550.18
The accompanying notes to the financial statements are an integral part of this statement.		

Western Piedmont Community College		
Statement of Cash Flows		
For the Fiscal Year Ended June 30, 2003		Exhibit C
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	\$	5,876,374.74
Payments to Employees and Fringe Benefits		(11,021,275.42)
Payments to Vendors and Suppliers		(4,284,025.17)
Payments for Scholarships and Fellowships		(2,741,134.03)
Loans Issued to Students		(26,119.25)
Collection of Loans to Students		26,121.25
Other Receipts		7,942.21
Net Cash Used by Operating Activities		(12,162,115.67)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		8,590,814.26
County Appropriations		1,384,160.04
Noncapital Grants Received		970,197.99
Noncapital Gifts and Endowments Received		79,107.89
Net Cash Provided by Noncapital Financing Activities		11,024,280.18
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		861,404.17
Capital Grants Received		427,195.13
Proceeds from Sale of Capital Assets		1,498.21
Proceeds from Insurance on Capital Assets		602.15
Acquisition and Construction of Capital Assets		(133,484.09)
Net Cash Provided by Capital and Related Financing Activities		1,157,215.57
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		75,000.00
Investment Income		50,684.84
Net Cash Provided by Investing Activities		125,684.84
Net Increase in Cash and Cash Equivalents		145,064.92
Cash and Cash Equivalents, July 1, 2002		1,276,253.84
Cash and Cash Equivalents, June 30, 2003	\$	1,421,318.76
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$	(12,532,293.02)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		491,266.48
Provision for Uncollectible Loans and Write-Offs		605.00
Changes in Assets and Liabilities:		
Receivables, Net		(285,336.78)
Inventories		(22,121.91)
Accounts Payable and Accrued Liabilities		(10,187.33)
Due to Primary Government		3,157.37
Deferred Revenue		133,315.87
Funds Held for Others		7,942.21
Compensated Absences		51,534.44
Net Cash Used by Operating Activities	\$	(12,162,117.67)

Western Piedmont Community College		
Statement of Cash Flows		Exhibit C
For the Fiscal Year Ended June 30, 2003		Page 2
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
	Cash and Cash Equivalents	\$ 1,166,319.18
	Restricted Cash and Cash Equivalents	163,210.68
Noncurrent Assets:		
	Restricted Cash and Cash Equivalents	91,788.90
	Total Cash and Cash Equivalents - June 30, 2003	\$ 1,421,318.76
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
	Change in Fair Value of Investments	\$ 20,801.55
The accompanying notes to the financial statements are an integral part of this statement.		

[This Page Left Blank Intentionally]

WESTERN PIEDMONT COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Western Piedmont Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds for which the College's Board of Trustees is financially accountable. Related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the full scope of the College's activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - This classification includes equity investments and money market funds. Equity investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.
- Money market funds are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.
- F. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** – Inventories, consisting of expendable supplies, postage, fuel oil, and merchandise for resale are valued at lower of cost or market value using the first-in, first-out method.
- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 25 years for general

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

infrastructure, 10 to 40 years for buildings, and 3 to 15 years for equipment.

The Senator Sam J. Ervin Library and Museum collection is capitalized at fair value at the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

- I. **Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- J. **Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- K. **Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each September 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous August 31st plus the leave earned, less the leave taken between September 1st and June 30th.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

- L. **Net Assets** – The College's net assets are classified as follows:

Invested in Capital Assets – This represents the College's total investment in capital assets.

Restricted Net Assets – Nonexpendable – Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

Restricted Net Assets – Expendable – Expendable restricted net assets include resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Unrestricted Net Assets – Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

M. Scholarship Discounts – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

N. Revenue and Expense Recognition – The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- O. Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as the College bookstore. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- P. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use as approved by the county commissioners.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with General Statute 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer's Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$1,880.00. The carrying amount of cash on deposit was \$1,419,438.76 and the bank balance was \$1,584,351.14.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 1,187,397.52	\$ 1,187,397.52
Cash on Deposit with Private Financial Institutions	232,041.24	396,953.62
	\$ 1,419,438.76	\$ 1,584,351.14

The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are "readily convertible into cash." All investments of the fund are held either by the Department of State Treasurer or agent in the State's name. The fund's uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer's Investment Pool are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2003, \$100,000.00 of the bank balance was covered by federal depository insurance and \$296,953.62 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

- B. Investments** – In addition to donated securities held by the College, the College is authorized to invest idle funds as provided by General Statute 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to General Statute 159-30(c), as follows: obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to General Statute 147-69.2. This statute authorizes investments for special funds held by the State Treasurer and includes the following investments: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit of specified institutions; prime quality commercial paper; specified bills of exchange; asset-backed securities, corporate bonds and notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

The College's investments are categorized to give an indication of the level of risk assumed by the College. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party if the counterparty to the investment transaction fails. Category 1 includes investments that are insured or registered or for which the securities are held by the College or agent in the College's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the College's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent, but not in the College's name.

A summary of the College's investments at June 30, 2003 is presented below:

	Fair Value			Total
	Risk Category			
	1	2	3	
Categorized Investments:				
Corporate Stocks	\$ 872,687.71	\$ 0.00	\$ 0.00	\$ 872,687.71
Investments Not Categorized:				
Money Market Funds				10,637.22
Total Investments				\$ 883,324.93

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 117,428.91	\$ 1,946.92	\$ 115,481.99
Accounts	53,783.75		53,783.75
Intergovernmental	319,506.03		319,506.03
Investment Earnings	3,649.88		3,649.88
Other	<u>24,394.70</u>		<u>24,394.70</u>
Total Current Receivables	<u>\$ 518,763.27</u>	<u>\$ 1,946.92</u>	<u>\$ 516,816.35</u>
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 5,101.00</u>	<u>\$ 2,626.00</u>	<u>\$ 2,475.00</u>

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2003, is presented as follows:

	<u>Balance July 1, 2002</u>	<u>Adjustments</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2003</u>
Capital Assets, Nondepreciable:					
Land	\$ 617,331.50	\$ 0.00	\$ 0.00	\$ 0.00	\$ 617,331.50
Art, Literature, and Artifacts	145,014.00				145,014.00
Construction in Progress		<u>(10,799.50)</u>	<u>10,799.50</u>		
Total Capital Assets, Nondepreciable	<u>762,345.50</u>	<u>(10,799.50)</u>	<u>10,799.50</u>		<u>762,345.50</u>
Capital Assets, Depreciable:					
Buildings	13,479,080.11			6,558.00	13,472,522.11
Machinery and Equipment	1,940,959.99		70,131.65	48,653.00	1,962,438.64
General Infrastructure	<u>414,854.11</u>	<u>10,799.50</u>			<u>425,653.61</u>
Total Capital Assets, Depreciable	<u>15,834,894.21</u>	<u>10,799.50</u>	<u>70,131.65</u>	<u>55,211.00</u>	<u>15,860,614.36</u>
Less Accumulated Depreciation:					
Buildings	5,264,506.71		357,839.20	6,558.00	5,615,787.91
Machinery and Equipment	1,036,700.69		128,774.52	44,708.60	1,120,766.61
General Infrastructure	<u>358,350.29</u>		<u>4,652.76</u>		<u>363,003.05</u>
Total Accumulated Depreciation	<u>6,659,557.69</u>		<u>491,266.48</u>	<u>51,266.60</u>	<u>7,099,557.57</u>
Total Capital Assets, Depreciable, Net	<u>9,175,336.52</u>	<u>10,799.50</u>	<u>(421,134.83)</u>	<u>3,944.40</u>	<u>8,761,056.79</u>
Capital Assets, Net	<u>\$ 9,937,682.02</u>	<u>\$ 0.00</u>	<u>\$ (410,335.33)</u>	<u>\$ 3,944.40</u>	<u>\$ 9,523,402.29</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2003 were as follows:

	Amount
Accounts Payable	\$ 60,220.42
Accrued Payroll	132,395.54
Total Accounts Payable and Accrued Liabilities	\$ 192,615.96

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Current Portion
Compensated Absences	\$ 363,702.03	\$ 329,098.33	\$ 277,563.89	\$ 415,236.47	\$ 8,929.91

NOTE 7 - LEASE OBLIGATIONS

Rental expense for all operating leases during the year was \$49,098.61.

NOTE 8 - REVENUES

A summary of eliminations and allowances by revenue classification is presented as follows:

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 2,126,330.20	\$ 0.00	\$ 442,155.29	\$ 297.50	\$ 1,683,877.41
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 1,142,507.21	\$ 17,665.60	\$ 238,083.62	\$ 141.62	\$ 886,616.37
Other	84,599.37				84,599.37
Sales and Services of Education and Related Activities	73,154.41			35.50	73,118.91
Total Sales and Services	\$ 1,300,260.99	\$ 17,665.60	\$ 238,083.62	\$ 177.12	\$ 1,044,334.65
Nonoperating - Noncapital Gifts	\$ 80,607.89	\$ 0.00	\$ 0.00	\$ 0.00	\$ 80,607.89

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - OPERATING EXPENSES BY FUNCTION

The College's operating expenses by functional classification are presented as follows:

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 6,679,283.37	\$ 1,098,783.65	\$ 330,271.09	\$ 0.00	\$ 0.00	\$ 0.00	\$ 8,108,338.11
Academic Support	1,274,368.74	131,328.03	51,711.38	9,634.09			1,467,042.24
Student Services	848,970.80	55,608.69	120,170.61	15,031.00			1,039,781.10
Institutional Support	1,528,197.00	110,281.70	443,178.29				2,081,656.99
Operations and Maintenance of Plant	648,360.66	490,911.27	158,678.62		320,997.53		1,618,948.08
Student Financial Aid			605.00	2,716,468.94			2,717,073.94
Auxiliary Enterprises	109,998.77	902,174.57	24,408.39				1,036,581.73
Depreciation						491,266.48	491,266.48
Total Operating Expenses	<u>\$ 11,089,179.34</u>	<u>\$ 2,789,087.91</u>	<u>\$ 1,129,023.38</u>	<u>\$ 2,741,134.03</u>	<u>\$ 320,997.53</u>	<u>\$ 491,266.48</u>	<u>\$ 18,560,688.67</u>

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2003, the General Assembly required no contribution by employers and 6% of covered payroll for members.

For the year ended June 30, 2003, the College had a total payroll of \$9,626,281.47, of which \$7,269,408.75 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$436,164.53. No employer contributions were required. The College made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were \$0.00, \$142,672.52, and \$375,028.77, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

home page <http://www.osc.state.nc.us/> and clicking on “Financial Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund’s assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$13,152.00 for the year ended June 30, 2003.

IRC Section 401(k) Plan - All members of the Teachers’ and State Employees’ Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$28,900.00 for the year ended June 30, 2003.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee’s eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$116,658.00 for the year ended June 30, 2003.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2003, the College's total contribution to the Plan was \$170,831.11. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long-Term Disability -** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2003, the College's total contribution to the DIPNC was \$37,800.93. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$11,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. A blanket honesty bond for all employees is handled by a private insurance company with coverage of \$100,000 per occurrence and \$250 deductible.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the Board entirely from county or institutional funds.

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions.

Additional details on the State-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$11,290.89 and on other purchases were \$354,110.09 at June 30, 2003.
- B. Pending Litigation and Claims** – The College is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.
- C. Community College General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of \$4,335,603.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 14 - WESTERN PIEDMONT FOUNDATION, INC.

The Western Piedmont Foundation, Inc., is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$150,028.18 for the year ended June 30, 2003.

***Western Piedmont Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2003***

Schedule 1

	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Capital Improvement Projects							
<i>Projects Approved by the State Board</i>							
Lighting Retrofits	Feb 2001	\$ 205,000.00	\$ 0.00	\$ 205,000.00	\$ 204,423.12	99.72%	Feb 2002
Campus Renovations	Apr 2002	880,000.00		880,000.00	707,936.43	80.45%	Jan 2004
<i>Projects Pending Approval by the State Board</i>							
Allied Health/Child Care Center	Sep 2003	3,858,649.00		3,858,649.00			Nov 2005
<i>Projects Not Started - To Be Funded in Future Years</i>							
Repair and Renovation Projects	May 2004	401,274.00		401,274.00			Feb 2005
Total All Projects		\$ 5,344,923.00	\$ 0.00	\$ 5,344,923.00	\$ 912,359.55		

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this Schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

DISTRIBUTION OF REVIEW REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

EXECUTIVE BRANCH

The Honorable Michael F. Easley
The Honorable Beverly M. Perdue
The Honorable Richard H. Moore
The Honorable Roy A. Cooper, III
Mr. David T. McCoy
Mr. Robert L. Powell
Mr. H. Martin Lancaster
Dr. Jim A. Richardson
Mr. C. Malone McNeely

Mr. Charles T. Henson

Governor of North Carolina
Lieutenant Governor of North Carolina
State Treasurer
Attorney General
State Budget Officer
State Controller
President, North Carolina Community College System
President, Western Piedmont Community College
Vice President for Administrative Services
Western Piedmont Community College
Chairman, Board of Trustees
Western Piedmont Community College

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

President Pro Tempore
Senator Marc Basnight, Co-Chair
Senator Charles W. Albertson
Senator Patrick J. Ballantine
Senator Daniel G. Clodfelter
Senator Walter H. Dalton
Senator Charlie S. Dannelly
Senator James Forrester
Senator Linda Garrou
Senator Wilbur P. Gulley
Senator Fletcher L. Hartsell, Jr.
Senator David W. Hoyle
Senator Ellie Kinnaird
Senator Jeanne H. Lucas
Senator Stephen M. Metcalf
Senator Anthony E. Rand
Senator Eric M. Reeves
Senator Robert A. Rucho
Senator R. C. Soles, Jr.
Senator Scott Thomas

Speaker of the House
Representative James B. Black, Co-Chair
Representative Richard T. Morgan, Co-Chair
Representative Martha B. Alexander
Representative Rex L. Baker
Representative Bobby H. Barbee, Sr.
Representative Harold J. Brubaker
Representative Debbie A. Clary
Representative E. Nelson Cole
Representative James W. Crawford, Jr.
Representative William T. Culpepper, III
Representative W. Pete Cunningham
Representative W. Robert Grady
Representative Joe Hackney
Representative Julia C. Howard
Representative Joe L. Kiser
Representative Edd Nye
Representative William C. Owens, Jr.
Representative Wilma M. Sherrill
Representative Thomas E. Wright

Other Legislative Officials

Mr. James D. Johnson

Director, Fiscal Research Division

April 23, 2004

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647